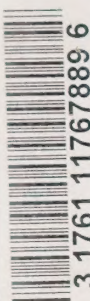


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GEOGRAPHY

The Czech Republic is located in Central Europe, southeast of Germany. The total area of the Czech Republic is 78,703 km². Land boundaries total 1,880 km; shared with Austria 362 km, Germany 646 km, Poland 658 km, and Slovakia 214 km.

The climate is temperate; with cool summers and cold, cloudy, humid winters. The terrain varies within the two main regions of the country: Bohemia in the west, consisting of rolling plains, hills, and plateaus surrounded by low mountains;

and Moravia in the east, consisting of very hilly country.

Natural resources include hard coal, soft coal, kaolin, clay, and graphite. Current environmental issues facing the Czech Republic include air and water pollution in areas of northwest Bohemia, and centred around Zeplica and northern Moravia around Ostrava health risks are present; and acid rain is damaging forests.



DEMOGRAPHICS

The population of the Czech Republic reached 10.4 million in 1995. Nineteen percent of the population is under 14 years, 68 percent is between 15-64 years, and 13 percent is 65 years and over.

The population growth rate is 0.26 percent. The birth rate is 13.46 births per 1,000 population. The death rate is 10.85 deaths per 1,000 population.

The nationality is Czech. About 300,000 Slovaks declared themselves Czech citizens in 1994. Ethnic divisions include: Czech (94.4 percent), Slovak (3 percent), Polish (0.6 percent), German (0.5 percent), Gypsy (0.3 percent), Hungarian (0.2 percent), and other (1 percent).

Religions include atheist (39.8 percent), Roman Catholic (39.2 percent), Protestant (4.6 percent), Orthodox (3 percent), and other (13.4 percent). Languages spoken include Czech and Slovak. Demographic Indicators are shown in Table 1.

Table 1:
Demographic Indicators

Population (million)	10.4
Population Density (1994)	131 per km ²
Population by Age	
0-14	19%
15-64	68%
65+	13%
Literacy Rate	99%
Population Growth (% projection 1992-2000)	0.1
Urban Population (% of total, 1994)	74.0
Human Development Index (ranking out of 174 countries, 1992)	38
Cities with over 1 Million Inhabitants (1995)	Prague, 1.2 million
Growth Rate of Largest City (% 1990-95)	Prague, 0.2
Sources: MRI, 1996; EIU, 1996; UNDP, 1995	

ECONOMIC OVERVIEW

The post-revolutionary Czech Republic government made economic transformation its number one priority. By applying restrictive macro-economic policies and rapidly privatizing much of the economy, the government succeeded in maintaining relative macro-economic stability while privatizing a significant percentage of the economy, devaluating the Czech Crown, carrying out major structural and institutional transformations at the micro-economic level, and decreasing government subsidies to former state enterprises. All of this was accompanied by significant new legislation aimed at overhauling the banking system, establishing capital markets, permitting restitution of private property, and creating conditions for a free market.

Greatly complicating the basic economic transformation of the post-revolutionary government were a series of virtually simultaneous external shocks. The absorption of East Germany by West Germany in 1990 represented the first shock as East Germany was a major trading partner for Czechoslovakia, accounting for approximately 10 percent of its foreign trade. Another shock came from the collapse of the

Soviet economy and recession in Central and Eastern Europe.

Since the "velvet revolution" of 1989 and the Czech Republic's national independence in January 1993, the country has been regarded as the most economically advanced reformer and politically stable country of Central and Eastern Europe. Standard and Poor recently upgraded the Czech Republic's economy to first place within the region, a ranking ahead of nations such as Greece, for example. This is remarkable progress considering that it had the smallest private sector economic share (less than 2 percent) of the Eastern European countries under communism. The rebound may be partially explained by the fact that prior to World War II, the former Czechoslovakia had been a thriving market-oriented industrial democracy and memories of that era had not vanished entirely.

The macro-economic picture is very positive with a low national debt, healthy foreign currency reserves, a balanced budget until 1996 when it experienced a small deficit which is expected to grow in 1997, relatively low inflation, and low unemployment for the region.

Table 2:
Key Economic Indicators and Projections

	1994	1995	1996 (est.)	1997 (est.)	1998 (est.)
Real GDP (% growth)	2.6	4.8	4.5	3.8	4.5
GNP per capita (US\$ at Purchasing Power Parity [PPP])	7,910				
Average Gross Monthly Wages (US\$)		312.29			
Percentage Growth in GNP	2.6				
Unemployment Rate (%)	3.2	2.9	3.3	4.0	4.5
Inflation Rate (%)		9.1	8.9	8.5	
Trade Balance (US\$ billion)	-0.4	-3.9	-5.1	-4.6	-4.8
Housing Investment to GDP (%)	2.4				
Gross Debt (US\$ billion)	10.7	16.5			
Foreign Direct Investment (US\$ million)	878	2,500	1990-95: 5,666	1996-2000 (est.): 15,466	

Sources: EIU, 1996; MRI, 1996; EBRD, 1995; USDOC, 1995

After shrinking from 1991 to 1993, GDP growth was positive for 1994 and 1995, and 4.5 percent was forecast for 1996. GDP growth is expected to slow slightly in 1997 as a result of poor export growth. Construction (including housing products and services) accounted for almost 6 percent of GDP in 1994. The trade deficit has increased as imports of quality consumer goods has grown rapidly.

Since the start of transition, anti-inflationary policies have had a significant impact on bringing inflation down from 57 percent in 1991 to 9.1 percent in 1995, one of the lowest of the

Central and Eastern European nations. Wage gains will continue to outstrip inflation with average increases of 17 percent predicted for both 1996 and 1997. Unemployment stood at 2.9 percent in 1995 and will grow only one or two percentage points as former state-owned enterprises restructure. There is also considerable regional disparity in unemployment with some rural areas at more than 8 percent, while Prague's low figure of 0.3 percent indicates a labour shortage. This shortage is in part fuelled by the lack of quality housing in Prague. Table 2 on the previous page shows the key economic indicators and projections.

POLITICAL OVERVIEW

The President presides over a coalition government of a centrist and a social democratic party which has been going through a period of adjustment and crisis, related to improving the country's balance of payments and inflation reduction. Some analysts doubt that the coalition will last its full four-year term, even though its support approaches 40 percent of the popular vote. The coalition's program includes a commitment to regional self-government and the creation of a

policy to deregulate rents, in a move towards a freer property market.

The political issues affecting the business climate are few. The Czech government is committed to early entry into Western institutions, first the Organization for Economic Cooperation and Development (OECD) and then the European Union (EU). It is an export-driven economy, and European markets are the first priority.

TRADE POLICY

The Czech Republic is a member of CEFTA (Central European Free Trade Agreement) whose members include: Hungary, Poland, Slovak Republic and Slovenia. In December 1994, the Czech Republic signed an association agreement with the European Union (EU) and will likely become a full member by the year 2002.

The value of Canadian goods exported to the Czech Republic totalled \$62.9 million in 1995, an

increase of 68 percent from the previous year. Imports to Canada from the Czech Republic reached \$75.8 million, an increase of 28 percent.

Canadian direct investment in the Czech Republic totalled \$150 million by 1995 while Czech investment in Canada was about \$20 million.

HOUSING CONDITIONS

With the exception of some single-family privately owned houses, virtually all housing during the Communist era was owned, operated and constructed by the government. Land and infrastructure were provided for free, and interest rates, rents, maintenance and utilities were heavily subsidized.

Direct state budget outlays for housing in former Czechoslovakia averaged US\$1 billion per year over the 1986-90 period. Reduced housing and labour mobility due to strong tenants' rights, including perpetual occupancy (transferable to family members); the right to sublet or exchange flats; the obligation of the building owner to find comparable alternative accommodation for tenants

in order to evict them; and housing over-consumption at the end of the family life-cycle, led shortages, especially in Prague. Owner-occupied housing forms the majority of the stock nationally, although in Prague, it is public rental which houses most households and consists of 25 percent of the stock. The ratio of households per unit is marginally higher in Prague than the national average, suggesting some doubling up of households. Table 3 illustrates housing conditions by type of tenure in 1994.

Recent policy reforms, restitution and privatization have changed the tenure structure, although public rentals still account for a large number of the total housing stock.

Table 3:
Housing Conditions by Tenure Type, 1994

Tenure Type	Percentage of the Housing Stock	Household/ dwelling	m ² /Person	Persons/ Room	Number of Units (000s)	Units in Single-family Buildings (%)	Units in Multi-family Buildings (%)
Public Rental*	27.6	1.07	22.5	1.2	1,024	4.1	95.9
Prague	38.0	1.10	NAV	1.2	324	NAV	NAV
Private Rental*	4.7	NAV	22.5	NAV	176	NAV	NAV
Owner-occupied*	42.2	1.13	29.8	0.9	1,563	89.9	10.1
Prague	13.0	1.14	n/a	0.8	68	NAV	NAV
Other*	25.5	1.05	22.4	1.1	225	NAV	NAV
Prague	24.0	1.06	n/a	1.0	NAV	NAV	NAV
Total*	100.0	1.09	25.5	1.0	-	-	-
Prague	100.0	1.10	NAV	1.1	-	-	-

NAV - Not Available

* National data

Source: MRI, 1996

Relevant Regulatory Systems

Changes in the housing sector parallel those taking place in post-communist society in general. The state no longer allocates housing, or plays a significant role in maintenance, operations or distribution. At the same time, a private property market is emerging. The withdrawal of state financial support and the privatization and restitution of state-owned housing, construction, and building material production facilities have resulted in fewer restrictions on the market. However, since the private sector share of housing output was relatively small compared to that of the state, withdrawal of funding has had the effect of depressing production and reducing overall employment in the sector.

Privatization has proceeded rapidly in the Czech Republic. Beginning in 1991, there was a direct transfer of ownership of a large share of the state-owned housing and real estate assets to popularly elected local governments. According to the European Bank for Reconstruction and Development (EBRD), the Czech Republic's 66 to 80 percent private sector share of GDP was the highest in 1995 of the 25 countries of Central Europe and the former Soviet Union.

Prior to reform, construction and maintenance of housing was done by large, vertically-integrated, inefficient state bodies called kombinats (enterprises). The privatization of enterprises in the Czech Republic is almost complete and new profitable firms have been formed. The number of staff varies between 20 and 500 employees, with a new average-enterprise size of 300 employees.

Almost 250,000 units (6.8 percent of the total housing stock) had been restituted to former owners or their heirs by 1994. Restitution for legal and corporate individuals is virtually complete; the deadline for submitting claims lapsed in 1991 and only paperwork remains to be completed. Restitution has had a profound impact on the inner areas of towns and cities in the Czech Republic. For example, in the central district of Prague, 70 to 75 percent of the stock has undergone restitution, while nationally only 6.8 percent of the housing

stock has been restituted. The national average for urban areas is 37 percent. Consequently, tenants of formerly state-owned, inner-city property have found themselves becoming tenants of a private landlord.

Formerly government-owned housing not restituted was transferred from state to local governments who have begun a process of turning many of these units into condominium units. Under the Co-operative Transformation Act (1992), roughly 36 percent of sitting tenants in state-owned housing purchased title to their units by paying a sum to the municipality equal to the size of the outstanding loan. This was typically a small amount for households who were members of the co-operative for some time and had already paid off a large portion of their debt. Buyers also became joint owners of the common areas of the building. Limited equity co-operatives were obvious targets for privatization as members had already contributed towards their housing costs.

Housing subsidies are gradually being phased out (4.3 percent of government budget expenditures in 1994), and rents and utilities are stabilizing at near market levels. While the Consumer Price Index increased by 132 percent between 1990-94, gross rents increased by 267 percent and utilities by 416 percent. This adjustment has been accelerated by the 1993 law which completely deregulated rents in new privately built housing and permitted other types of rent increases. Another law introduced the fixed-term lease allowing tenants to be evicted at the end of the term and increased flexibility in the type of alternate accommodation which must be provided to those tenants.

Since 1992, development by private entrepreneurs has been allowed. However, there has been little success in streamlining land use planning and development approvals processes. As of May 1994, the Condominium Act has been in place for new housing, but it has been slow to be implemented. This is due in part, to the lack of private property management firms necessary to maintain condominium common elements. There is a need for an accurate and efficient means for recording official transfers of title once properties

have been sold. Computerized systems, which are beginning to solve this problem, have not been introduced in many parts of the country. A new building code was introduced in 1994 along with a building inspector certification requirement.

Key Housing Market Institutions

The completion of housing projects initiated by the government is the responsibility of the Ministry of Industry and Trade. The Ministry of Construction is responsible for the certification of building inspectors, the co-ordination of national development policy, and regulation including the new building code introduced in 1994. The Ministry of Regional Development is responsible for housing policy and also takes care of financial means intended for the state housing policy. The Ministries (also including Finance) work closely with a number of professional organizations including certification and testing institutions and unions of architects, engineers, entrepreneurs and general contractors.

State of the Local Housing Market

The housing quality, in terms of age, water, sewerage and central heating, is among the best in the region. Generally, housing is well served by utilities although the national averages may hide some regional disparities. Table 4 illustrates the housing quality characteristics.

Substandard housing amounts to approximately 8.6 percent of the total stock, with a considerably higher amount of the stock requiring substantial renovation. With respect to tenure, the share of substandard housing is highest in the owner-occupied sector. Almost half of the housing stock has been constructed since 1960, a reasonably low proportion for the region.

Table 4:
Housing Quality Characteristics (Based on a total stock of 3,659,000 units, 1995)

Total urban dwellings	2,594,400
Total rural dwellings	1,064,700
Housing units per 1,000 people*	397
Prague**	433
Piped water in % of flats*	96.9
Bath or shower in % of flats*	90.9
Central heating in % of total housing*	73.0
Housing built since 1960 (%)*	48.0
Prague**	45.8

* National average, 1994
 ** Prague, capital city, 1995
 Sources: MRI, 1996; Kingsley and Mikelsons, 1996

Housing Costs

In 1995, the average Czech wage was US\$312 per month. Wage increases of 17 percent are predicted for 1996 and 1997, with only 15 percent in the construction sector. Rising wages and purchasing power will make housing more affordable in spite of an increasing house price to income ratio. Housing costs in the owner-occupied and rental sectors are shown in Table 5.

The proportion of income spent on housing and utilities in both the owner-occupied and public rental sectors is still relatively low by Canadian standards. Although the outlook is positive, average households do not have the savings sufficient to purchase housing, which limits effective demand. One significant change is that while nationally, owner-occupied housing has become less affordable, it has fallen in the capital relative to income, as is indicated with the ratio of house price to income.

Table 5:
Housing Costs in the Owner-Occupied and Rental Sectors, 1994

	Public Sector Rentals (as a % of average income)			Owner-Occupied
	Rent	Utilities	Rent and Utilities	Ratio of house price to income
Czech Republic	3.1	7.8	10.9	5.6
Prague	2.8	7.4	10.2	5.0

Source: MRI, 1996

MATERIALS, LABOUR AND FINANCING

Overview

Foreign direct investment in the construction industry attracted almost US\$28 million, or 6 percent of total investment in the first half of 1996, bringing the total to US\$490 million or 8 percent of total foreign direct investment. Overall, foreign direct investment continues to grow in spite of inflationary pressures and recent banking failures.

Private construction companies accounted for over 90 percent of the building activity in 1994. Firms with more than 25 employees have experienced uneven productivity in contrast to firms with less than 25 employees who have seen their productivity increase steadily, with a 15-percent growth over the period 1991-95. From 1990-94, housing's share of total construction output declined from 17 percent to 8 percent.

As a result of the sale of construction companies formerly owned by the Czech government, the industry has been restructuring. The number of building companies increased seven-fold while the average number of employees per firm declined by 90 percent. A large number of smaller construction firms have emerged offering competitive service.

Overall employment in the sector has decreased from a high of 231,000 in 1991 to its current level of 218,000, while the total number of firms has increased from 392 to 1,186. A profile of the industry shows that the smaller firms with fewer employees operate more competitively, and the value of work done by the restructured industry has grown from US\$2.3 billion in 1991 to US\$3.4 billion by 1993.

Materials

The building materials available in the Czech Republic are generally non-standard products available in a limited variety. Traditionally, builders purchase materials directly from manufacturers. Recently, the first North American-style building material retailers have sprung up. Material selection is more diversified, with North American products (generally of higher quality) offered alongside domestically

produced, cheaper products. The cost of local materials is expected to decrease over the next few years as greater efficiencies are realized from restructured former state enterprises. The 1993 production of local building materials is illustrated in Table 6.

Table 6:
Local Production of Building Materials, 1993

Material	Quantity
Bricks	1,112 (million)
Lime	1,238 (1000 t)
Roofing Tiles	1,469 (million)
Pre-fabricated Concrete Elements	987 (1000 t)
Sawn Wood	1,546 (1000 m)

Source: United Nations, 1995

The demand for value-added products has grown, and given rise to both joint ventures, and an increased demand for Canadian building materials. The overall size of the market is projected to expand considerably as exports fall and imports increase.

Labour

The construction labour pool in the Czech Republic is highly skilled, but not necessarily in wood-frame technologies. The work-force is highly educated and works for a relatively low wage, averaging US\$312 per month. However, productivity is also comparatively low. The recent reduction in size of the construction work-force means that the labour shortages present in other sectors of the economy are not affecting construction strongly. Total employer contributions (unemployment, pension, health and disability) as a percentage of gross monthly wages is 32.25 percent for citizens and 13.25 for expatriate employees, some of the lowest rates in the region. The total labour force in the construction industry for 1994 is shown in Table 7 and Table 8 illustrates the market for building products.

Table 7:
Structure of the Building Industry, 1994

Indicator	Number
Public Corporations	230
Public Employees	96,000
Private Corporations	956
Private Employees	122,000
Companies with:	
0-49 Employees	347
50-99 Employees	334
100+ Employees	505
Total Employees	1,186

Source: MRI, 1996

Table 8:
Building Products Market

	1994	1995 (est.)	1996 (est.)
Total Market Size (US\$ Million)	567.3	635	816
Total Local Production (US\$ Million)	572.7	680	760
Total Exports (US\$ Million)	173.8	145	166
Total Imports (US\$ Million)	168.5	200	222
Imports From Canada (in million)	1.5	2.10 (actual)	2.9 (est.)
Canadian Percentage of Market	5	Not Available	Not Available

Sources: USDOC, 1995; Industry Canada, 1996

liquidity, and there have been bank failures recently. As a consequence, banks are reluctant to extend long-term credit (e.g., mortgages). Mortgages, especially in light of the absence of a reliable foreclosure mechanism, are considered an unacceptable risk by banks. A variety of short-term loans are available for purchasing existing houses or for renovation, but because of the poor foreclosure mechanism, these loans must have as collateral assets other than the real property the mortgage is attached to.

In 1992, the Czech government passed legislation authorizing the creation of contract savings schemes. These are dedicated savings accounts to be used for any housing-related expenditures, including purchase or rehabilitation, and are fairly attractive for two reasons. First, the government credits each account with an amount equal to 25 percent of the annual savings, and secondly, the interest accrued is income tax exempt, which gives a combined yield of approximately 30 percent. The minimum savings time is six years. By the end of 1994, there were over 485,000 active accounts in the Czech Republic. The first wave of these accounts will mature in 1997 although the impact of this on housing demand is unclear. Alone, the accounts will not be sufficient to purchase most flats or houses.

The Czech government also approved a mortgage scheme in 1995 whereby it pays a cash subsidy to reduce the effective interest rate on the mortgage of the purchaser's home. Critics feel this proposal will not spur new housing construction. The term of this arrangement is not defined, except to state that interest will be reduced by 4 percent during the first year, and 3 percent in the second. The law limits the amount of the subsidized loan to approximately \$65,000 for a house, and approximately \$31,000 for a flat. For any mortgage exceeding this amount, the difference has to be borrowed at the prevailing commercial interest rate, about 11 percent in 1996. A mortgage would have to be secured with some other means (e.g., some other owned property or asset), since one cannot use the mortgaged property as security for the loan because of the legal difficulties in foreclosing. Nonetheless, the program is capitalized with more than US\$7.5 million.

Financing

Although incomes are increasing, the lack of an adequate housing finance mechanism remains one of the biggest constraints to the development of new dwellings. Most homes are purchased without a mortgage by using a one-time cash payment, often in hard currency. Banks in the Czech Republic are relatively poorly capitalized, lack

HOUSING MARKET ACTIVITY, NEED AND DEMAND

Local Housing Activities

A residential real estate market is emerging although sales are primarily of flats or houses which the government restituted to their pre-1948 owners. By the end of 1993, house prices in Prague had escalated 40-60 times since 1989.

According to the Association of Real Estate Bureaus in Prague, housing prices are expected to increase 300 percent by the year 2000 as a result of strong pressures on the domestic real estate market, and the acute housing shortages in larger cities. No data are available on the exact number of real estate transactions or the average value of these transactions. Many of the flats sold by local governments to their sitting tenants cannot be re-sold, because formal legal title and ownership was not transferred at the time of sale, and in addition, there is a processing backlog. An informal property market exists with parties agreeing to exchange residences without exchange of legal title. There is very little housing mobility in the Czech Republic with 2.4 percent of the population changing their residence in 1992.

The combined effects of economic recession and the reduction of state and co-operative sector investment in housing, resulted in a decrease in gross investment from 3.2 to 2.4 percent of GDP. Government investment declined from US\$244 million to US\$105 million. However, these reductions were somewhat offset by a 35 percent increase in private investment. Table 9 illustrates the housing investment, in US\$ million for the period 1990-94.

Housing starts jumped in 1996 by 32 percent, indicating market response to pent-up consumer demand, despite housing completions falling by 5.6 percent in the first half of 1996, compared to 1995. Approximately 22,000 dwellings were completed during 1995, down sharply from an average 36,500 units completed annually during the 1991-93 period. Although the construction industry had grown by 4.1 percent during the first half of the year, performance fell short of expectations. The slower growth is attributed to a reduction in construction employment and a 15 percent increase in construction wages. The Czech Republic building industry accounts for almost 6 percent of GDP, employs over 400,000 people and achieved the most dynamic growth of all the countries in the Central and Eastern European region in 1995.

Most analysts suggest new housing construction has fallen off because the Czech consumer is highly price sensitive and the cost of the new housing simply exceeds the amount most families can afford to pay. Since 1991, the cost of new housing has increased more rapidly than the growth in income. However, this gap is smaller for the top ten percent of income earners who still have their choice of market offerings. There were 31,500 units completed in 1993, with the majority of them being conventional single-family homes. Over 41 percent of building permits issued in the Czech Republic in 1995 were for detached single-family houses. Statistics are shown in Table 10.

Table 9:
Housing Investment 1990-94 (US\$ million)

	State and Local Governments	Co-operatives	Private Persons and Institutions	Total	Share of GDP
1990	244	425	332	1,001	3.2
1994	105	192	450	745	2.4

Source: MRI, 1996

Table 10:
New Housing Units by Type of Developer

		1980	1990	1994
National	Government	17,066	8,516	4224
	Co-operatives	27,447	17,056	5,601
	Private Individuals	19,777	17,172	7,373
	Total	64,290	42,744	17,198
Prague	Government	2,967	1,804	763
	Co-operatives	2,398	2,275	3,035
	Private Individuals	778	293	513
	Total	6,143	4,372	4,311

Source: MRI, 1996

The number of housing starts reached a low of about 12,000 units in 1993. Since then, a gradual recovery has begun and housing starts were expected to reach 20,000 in 1996. The number of flat-unit starts (a subset of housing starts) is also increasing and could reach 7,000 in 1997. Units under construction dropped steadily from over 120,000 in 1991 to about 60,000 at the end of 1995, indicating the completion of state housing begun before the transformation. While the number of housing starts is low (1.8 housing starts per 1,000 persons per year in 1994), it is not the lowest in the region. By comparison, typical starts in Western Europe are in the 3 to 6 per 1,000 range. Approximately 1.5 percent of GDP was invested in housing construction in 1995.

There has been a dramatic decrease in the number of new units constructed, an increase in the construction cost which outstrips inflation, and an increase of 13 percent in the floor area.

Construction costs are difficult to forecast and

estimates do not remain valid for long because of inflation and uncertainty about the availability and cost of building materials. Reported costs for the Czech Republic range between US\$320-550 per m². The limited amount of serviced land, around and in larger cities, is a big influence on the overall development cost of new housing. Housing production, land and development costs are shown in Table 11.

Housing Need

There are 4.1 million households in the Czech Republic with an average 2.9 persons per household. By 2010, the number of households is projected to have increased by 7.2 percent. To accommodate this growth, 31,000 new units per year will be needed and a further 20,000 units will need to be renovated or demolished, for an annual total of 51,000 units. Current production is much lower with only 22,000 units completed in 1995.

Table 11:
Housing Production, Land and Development Costs

	New Units per 1,000 Population			Land Cost	Construction Cost			New Unit Size, m ²		
	1990	1994	%1990/1994		1990	1994	%1990/1994	1990	1994	%1990/1994
Czech Republic	4.3	1.8	42	NAV	152	337	222	77	87	113
Prague	NAV	NAV	NAV	9-33	185	410	222	NAV	50.6	NAP

NAV - Not Available

NAP - Not Applicable

1. Defined as the land price as a percentage of the total house price (including land price) for typical newly constructed units.

2. Defined as the present replacement cost (labour, materials, on site infrastructure, management and contractor profits) in US\$ per m² of a median priced dwelling unit.

Source: MRI, 1996

Many first-time buyers will soon be entering the market, a result of a baby-boom during the 1970s. Living primarily in Prague, they are well-salaried and their demands for an affordable entry-level home may become a political issue in the next few years.

In spite of the Czech Republic's stable population and an approximately equal ratio of dwelling units to households, there is demand for housing. Due to the labour shortages experienced in larger cities, particularly in Prague, there is a net migration into urban centres. This creates both high vacancy rates in rural areas, and a doubling up in larger cities (5.4 percent of households or roughly 200,000 families). If housing could be provided for this market, the number of persons per household would drop from 2.9 to 2.67. Another significant need is for the renovation and replacement of the existing stock.

The demand prognosis is as follows:

- Short-term (end 1997): During the year, demand will continue to increase along with

savings and wage levels. However, until changes are made in the Building Act, and in mortgaging schemes, there will be no widespread housing boom. The key demand will be for affordable starter homes.

- Medium-term (3-5 years): The Czech government will likely adopt a "wait-and-see" approach to the success of its existing schemes before trying anything new. Demand will continue to be in fringe areas of capital cities for entry-level homes and flats.
- Long-term (5+ years): A housing construction boom is inevitable in the long-term, as pent-up demand matches rising real wages and growing savings. This boom will also be facilitated by necessary legislative and banking changes. A particular demand will be for energy efficient retrofitting of housing, as Czech energy prices gradually rise to meet world levels.

EXPORT OPPORTUNITIES AND STRATEGIES

Overview

When considering the current trade in building products, several issues are important. Markets for construction products are volatile and may experience substantial gains and losses from year to year. Overall trends should be viewed in this light. Trade data available does not specify the end use of the products; consequently there may be an over-estimate of the housing sector activity. Export growth must be viewed alongside export volume for a balanced picture of export activity.

The Czech Republic is the fifth largest market in Central and Eastern Europe for Canadian building products, worth about \$3.7 million between 1993-95. The market is the seventh fastest growing of 16 Central and Eastern European countries with a 40-percent growth in exports between 1994-95. The indications are that the first half of 1996 was even stronger than the first half of 1995.

The strongest growth between 1994-95 was in exports of wood products, which included dimensional lumber, as well as more finished assemblies and components.

In 1994, Canada ranked sixth internationally in building product exports to the Czech Republic. However, Canadian firms face strong competition from German, Austrian, Italian and Scandinavian firms. Canada had the sixth largest share of the building products import market in 1994 with a 5-percent share, performing better than its

traditional competitors, the U.K. (3-percent share) and the U.S. (1-percent share). Table 12 illustrates the value of exports of Canadian building products for the period 1993-95.

While Canada seems particularly strong in the value-added components market, the growth of lumber exports continues. Canadian involvement in the Czech Republic is diverse, and active firms include an equal number of developers, builders and product exporters. However, few service providers (such architecture, planning, and engineering consultants) are active in the Czech market. Some of the companies that have been involved include Scott & Associates (Prague Airport) and Piko Architects (Wenceslav Square).

Export Opportunities

Approximately 22,000 dwellings were completed during 1995, down sharply from an average of 36,500 units completed annually during the 1991-93 period. Growth in effective demand is however contingent upon the success of certain economic and political reforms. As these reforms succeed and the Czech Republic's economy adjusts, there will likely be an accelerated growth in wages and in dual-income families, which would spur housing construction and rehabilitation. The long history of housing as an important and secure means of accumulating wealth in the Czech Republic means that the market will ultimately be stronger once conditions are right.

Table 12:
Value of Canadian Building Material Exports, 1993-95

	Prefab. Buildings	Wood Products	Doors and Windows	HVAC, Electrical, Mechanical	Roof, Floor and Wall Products	Finishes and Hardware	Tools and Heavy Equipment
1993	42,941						42,941
1994	83,596	63,787	156,740	892,328	28,860	254,274	1,504,203
1995	216,106	421,962	254,477	958,812	111,012	77,806	2,100,323
Total 1993-95	342,643	485,749	411,217	1,851,140	139,872	332,080	3,647,467
% Increase 1994-95	159	562	62	7	285	-69	40

Source: Industry Canada, 1997

Short-term Opportunities (under 2 years)

Provision of Luxury Housing: A promising niche market exists in the provision of luxury and custom homes on the outskirts of larger cities. The type of house most likely to succeed would be a traditional masonry home with a few upgrades such as HVAC, a custom kitchen, and a security system. Purchasers of this type of housing will be able to pay cash, avoiding mortgaging difficulties.

Residential Apartment/Condominium

Development: Trends in income distribution in the Czech Republic suggest that there might be a growing demand for 80-100 m² apartments in medium-density housing developments. One Canadian company with a Czech partner, is currently constructing a 92-unit condominium in Prague utilizing imported Canadian products for 50 percent of material needs. All of the units were pre-sold before one-third of the construction was complete.

Single-Family Home Building Industry: This sub-sector of the housing market will continue to be characterized by small firms constructing 20 or fewer homes per year. Canadian firms could do well in Prague and although volumes are small, there are indications that profit margins might be higher than in Canada.

Conversion or Restoration of Centrally-

Located Buildings: The restoration of historic buildings is very attractive because of their high marketability and resale prices. Mixed-use commercial residential buildings in close proximity to Prague's central business district are particularly attractive. Such projects are often undertaken as joint ventures with the Canadian partner financing the restoration or conversion in exchange for a portion of future rents, a long-term lease that can be arranged through a broker, or an equity position in the building.

Opportunities for Professional Services and

Training: There are limited opportunities in this area. Although there is a great need for strengthening the capacity of municipalities, and with the housing industry in a transition to a free market, opportunities are limited and project specific. There are currently no Canadian firms conducting long-term training or professional assignments in the Czech Republic.

Export of Construction Technologies and

Building Materials: There is an immediate need in the Czech Republic for efficient, modern production technologies especially to assist in the production of lower-density housing forms. The building materials sector offers steady and growing opportunities, but market research is key in identifying specific products in demand. Exporting a wide array of products would be premature. Prices for materials are reportedly similar to Western Europe although volumes are smaller.

Do-It-Yourself Market: This is a very promising sub-sector but is extremely price sensitive. Increasing prices for domestic tools in particular have made the higher quality imported tools more attractive. In terms of building materials, the best prospects are in areas such as kitchen cabinets, pre-hung doors, drywall supplies and ceramic tiles, and the small consumer tools required for this type of work, including impact drills, screwdrivers, cordless tools and wrench sets. Another opportunity is in the establishment of retail outlets to serve the do-it-yourself market.

Medium-term Opportunities (2-5 years)

Wood-frame Housing: Wood-frame and prefabricated housing represents less than 10 percent of new housing construction in the Czech Republic. There are about 25 producers of wood-frame houses and each has average annual sales of 10 units per year. The best performing firm sold 40 houses in its best year.

In general, the housing offered has fewer design features and options than Canadian prefabricated housing. Most wood-frame housing produced in the Czech Republic resembles masonry homes in terms of design and does not take advantage of the properties inherent in wood-frame technology.

Locally produced wood-frame houses have been of poor quality and consumers may be wary of the technology unless it offers a price advantage over traditional masonry or pre-cast concrete technologies.

Manufactured housing is not widely accepted in the Czech Republic. Due to Canadian wage and material costs, most Canadian manufactured housing provides poor value for money at the present time (although increasing exports of full

Canadian houses or Canadian building materials are taking place). Additionally, there is local resistance to wood-frame construction. However, as elsewhere in the region, there is sensitivity to price. Of greater promise to Canadian exporters is the transfer of manufacturing and modular technologies.

There is a fairly high level of interest in wood-frame housing in the Czech Republic despite a lack of tradition with the technology. Twenty-seven percent of respondents of a recent U.S. Commerce Department survey expressed strong interest in wood-frame housing, and a further 45 percent were somewhat interested. People who expressed the most interest in wood-frame housing were able to pay 3-5 million Koruna (US\$115,000-192,000). A large number of interested people could raise funds from the sale of other types of real estate.

Overall, 85 percent of interested people would require some level of financing assistance. The greatest number of people (55 percent) expressed interest in a home costing US\$77,000 when offered a second mortgage at a 6-9 percent interest rate. Fifteen percent could afford a home up to US\$115,000 and 11 percent could afford a higher price. This figure is in line with the bottom end of the wood-frame housing market at present in the Czech Republic. A small local manufacturer, or a large off-shore volume manufacturer could likely provide a better value house than is presently offered.

The most popular house plan was a two-storey detached home with a basement, a work space, three bedrooms, two bathrooms and a one or two-car garage. The home would ideally have classical roof tiles, parquet floors and ceramic tiling in the kitchen. Extrapolating from the survey results, approximately 3 percent of Czech Republic households would be able to purchase a wood-frame house priced under US\$115,000, making this a sizeable niche market. Another approach would be to offer a "shell" home with the purchaser providing interior finishes as funds became available.

Housing Infrastructure: In partnership with USAID, the Czech government is making financing available to local governments for housing-related infrastructure projects. Eligible

projects include: water supply, sewage upgrading and expansion, gas distribution line installation, solid waste management facilities, district heating, construction of secondary roads, and energy efficient retrofitting of existing buildings. The end result of this program should be an increase in serviced residential lots.

Long-term Opportunities (5-10 years)

Second Homes: A key feature of the Czech market is the prevalence of *chaty* and *chalupy* (cottages/holiday homes) in the countryside. As incomes rise, the market for second homes, many of them of wood-frame technology, may increase.

Rehabilitation and Energy Retrofitting of Pre-cast Concrete Buildings: This is a significant opportunity as there are about 2 million high- and mid-rise, pre-cast concrete apartment units in the Czech Republic. As the government gradually phases out subsidies, and energy prices reach world levels, there will be a tremendous challenge and opportunity to retrofit buildings for greater energy efficiency. Although the owners of the units are unlikely to be able to finance this themselves, a number of organizations, including the EBRD and the International Finance Corporation are willing to finance such ventures.

Housing Components and Value-Added

Products: Gradual changes are apparent in the types of components used in Czech housing, particularly siding, plastic windows and pre-hung doors. Each offers a cost and construction time advantage over alternative products.

Best Export Prospects

The materials which are potentially the best sales prospects were chosen by considering a combination of local need and demand, and Canadian ability to supply these products. Some of these products are already available in the Czech Republic, but Canadian products may be selling well or offer a better price or quality. Based on an analysis of current trends, the best sales prospects for the 1996-97 period are:

- prefabricated housing;
- lightweight structural components (panel assemblies, laminated beams, etc.);
- exterior insulation and other insulation technologies for retrofitting of approximately

2 million pre-cast concrete panels in mid- and highrise apartments;

- fibreglass insulation;
- pre-hung doors, PVC and metal windows, roof windows;
- wall products: drywall, wallpaper, paints and finishes;
- flooring: hardwood, resilient, carpet;
- sanitary bathwares;
- siding and exterior cladding systems;
- dimensional softwood lumber and plywood;
- builders' hardware and tools;
- kitchen cabinets;
- lighting;
- security systems;
- heating control and measurement systems; and
- asphalt shingles, which were virtually unknown in the Czech Republic five years ago, but are now applied to 30 percent of all new roofs. (Canadian imports represent over half the local market.)

Recommended Strategies

The Czech Republic is a very promising market for Canadian exporters. It has grown rapidly and

there have been significant efforts to address areas which impede housing growth such as financial, legislative and mortgage issues. Among all the countries in the Central and Eastern European region, the Czech Republic has seen the most advances in terms of improving the clarity of the business environment for exporters and investors, and has been given an “advanced” rating for its progress by the World Bank. Therefore, regionally, the Czech Republic represents a good opportunity. Nonetheless, there are several issues to consider:

- The business environment is changing rapidly for the better. This fluid environment creates great business opportunities with commensurate risks.
- The attitude towards Canadian products is positive in the Czech Republic and the market for housing-related products is growing as a result.
- There is less transparency in the business, legal and regulatory environments than in Canada and the best way to evaluate risk is to work closely with business experts operating in the Czech Republic. Many international business firms offer risk assessment services, market surveys, and expert legal counsel for Canadian exporters.

BUSINESS ENVIRONMENT

Overview

The official languages in the Czech Republic are Czech and Slovak, although many Czech citizens also speak English or German.

The Czech Republic has eliminated the need for entry visas for Canadians staying 30 days or less. Business people staying longer are required to register with the immigration services.

The Czech Koruna has significantly stabilized and has been internally convertible since 1991 and fully convertible since January 1996. The Koruna's exchange rate is pegged to a basket of international hard currencies. The average 1996 exchange rate was 26 Koruna = \$1US.

Business Customs

The business day starts between 6 and 8 a.m. and ends between 3 and 5 p.m. The weekly maximum number of hours required of staff is 43 and the maximum number of hours per day is 9.

Standard European business customs apply in the Czech Republic. Czechs dress much as Canadian business representatives. The business custom is to be punctual for appointments. Many North Americans also feel that Czech business representatives are not warm and friendly. It is not usual that initial meetings are overly cordial, but mostly matter-of-fact, and business partners do not call each other by first names. Unless the Czech business representative has experience dealing with North Americans, the business partner might appear to be friendly and outgoing only after several meetings of getting to know a business partner. The Czech Republic's legal holidays are listed in Table 13.

Business Infrastructure

European competition for the Czech market is fierce. Over half of the country's trade is conducted with its neighbouring countries: Germany, Austria, Slovakia, and Poland. The most significant trading partner is Germany.

Many say that the Czech Republic is the most economically advanced re-emerging market of the

former Eastern Bloc. It has a stable currency with few current-account foreign-exchange controls, low unemployment, low national debt, strong foreign currency reserves, and a small, general government fiscal surplus through recent years. The Czech Republic managed to turn its foreign trade away from declining Eastern markets to the West in a short period of time, and exports are rising rapidly. By all accounts, the economic and commercial pictures are bright.

The Czech Republic has an adequate and extensive road network totalling 55,890 km. The Elbe (Labe) river is the principal river; railroads total 9,434 km in broad, standard and several narrow gauges. Four major shipping ports are located at Decin, Prague, Usti and Labem. The country has 2 major airports and 114 other airports. Natural gas pipelines total 5,400 km.

Table 13:
Holidays

January 1	New Year's Day
March/April (variable)	Easter Monday
May 1	Labour Day
May 8	Day of Liberation from the Nazis
July 5	Slav Missionary Day
July 6	Jan Hus Day
October 26	Founding of Czechoslovakia National Day
December 24	Christmas Eve
December 25	Christmas Day
December 26	St. Stephen's Day

Distribution and Sales Channels

Distribution, once a part of a highly integrated monopolistic economy in the Czech Republic, is being broken up into smaller entities, separated from the manufacturing, and privatized. The ultimate decline of the state-owned and operated distribution system is being replaced by the rapid development of private distribution—essentially a large number of private entrepreneurs who are building distribution from the bottom up.

Major improvements in infrastructure and privatization have meant enormous growth in transportation and distribution services, particularly in the trucking sector. There are currently about 2,000 trucking firms in the Czech Republic.

Distribution channels should be established through a local partner or by exporting products through a consolidator. The population density of the Czech Republic is the highest in the region, although the strongest markets are still in the larger cities. The Canadian Embassy in Prague can help with identifying interested agents, partners and distributors.

Finding a Partner

Finding or investing in a private distributor is a common way of entering the market. The number of private distributors is growing rapidly. The most efficient distributors are those that are working closely with their manufacturing partner in the west to find tailor-made solutions to their local problems. Usually one distributor can cover the entire country, unless local service or warehousing is required.

It is agreed that simply finding a distributor is as big of a problem as setting one up, however. Companies are finding distributors and local sales personnel through referrals and newspaper advertisements.

Wholesalers need training in organizing and managing a warehouse, administrative tasks, logistics, and financing. It is emphasized, however, that wholesalers do not “sell” the product for the manufacturer. It is still the job of the manufacturer to ensure the proper marketing of its product, above and beyond the role of the retailer, in contrast to former times.

Most distributors note that their margins are similar to those in the west. With respect to salaries, field sales representatives usually earn a base salary plus commission (anywhere from 2 to 10 percent, depending on the product), and travel benefits (company car, travel allowance).

Joint Ventures and Licensing

Now that most large firms are private or undergoing privatization, Greenfield operations

and joint ventures are more common. Licensing is also becoming more common. Foreign firms are sometimes not willing to invest in a Czech firm because of environmental or other long-term liabilities, and joint ventures offer an excellent opportunity to increase cooperation and develop a longer-term relationship.

There are two basic types of business entities common in the Czech Republic: joint ventures and wholly-owned foreign subsidiaries, including 100-percent foreign-owned Czech businesses. Each form is similar to the Canadian equivalent and both are treated as equal in law. Joint ventures can be any of the following: joint stock company or corporation; limited liability company; and general partnership or a limited partnership. There are some minimum capital requirements for foreign participation (Kc 100,000 for limited liability and Kc 1,000,000 for a joint stock company).

Establishing an Office

In order to do business in the Czech Republic, a company must be registered at the District Office at the place of residence (for a physical person/sole proprietor) or at the District Office of the region where the company has a permanent place for doing business. Some of the documents required include: statement of type of company that will be formed; a formation agreement (articles of incorporation); a trade licence (if necessary); bank account information and proof that company's basic capital is on deposit; description of business activity; and a legalized copy of incorporation documents (if firm is a subsidiary).

Branches of foreign corporations are not permitted. Foreign companies generally invest in joint stock companies and limited liability companies.

Joint Stock Companies (akciová společnost-denoted AS): The Czech government recommends the use of an AS for joint venture operations. The AS exists independently of shareholders, and there are no restrictions on the number or nationality of shareholders. To establish an AS, a memorandum of association must be prepared, usually in the form of a joint venture agreement. This memorandum must include: the company name and registered office; the name and

address of the registered offices of the founding members; the value of the capital stock; and other relevant information pertaining to company procedures or bylaws.

Capital stock must be at least Kc 1 million and at least 30 percent of this subscribed cash amount must be paid-in upon incorporation. At the time of incorporation, a reserve fund of at least 10 percent of the capital stock must be created, and at least 5 percent of profit after taxes must be transferred to the reserve fund annually until it reaches the level of 20 percent of capital stock.

The AS must have a supervisory board of at least three members, elected by the shareholders at the annual meeting. The board of directors or the management should handle the daily affairs of the company. The board must consist of a minimum of 3 and a maximum of 11 members.

Limited Liability Companies (společnost s ručením omezeným—denoted SSRO): This type of company combines certain elements of the joint stock company and the partnership, but is not as regulated as the AS. The SSRO exists independently of its members, who are not liable for the debts and obligations of the company. Capital stock must be at least Kc 100,000. Registered capital is not divided into shares; the amount to be invested by each member is specified in the memorandum of association. The memorandum of association must also list the name and registered office of the company, the objective and activities of the company, the foundation capital, and company procedures.

Partnerships: There are a variety of different partnership arrangements available for foreign businesses in the Czech Republic. They include:

- General commercial partnership—an association of two or more individuals for the purpose of conducting business under a common name with unlimited liability for all partners.
- Partnership with corporate sponsors—partnership where the members of the venture are both companies.
- Limited commercial partnership—similar to the general partnership. However, at least one of the partners' liability for debts of the firm is unlimited, and one or more of the limited partners' liability is restricted to an amount specified in the contract.
- Partnership limited by shares—similar to a limited partnership. However, the capital of the limited partners takes the form of shares.
- Representatives—in order to establish a commercial representative office, a foreign business must register with the Ministry of Foreign Trade of the Czechoslovak Republic. Such offices may engage only in marketing and promotional activities.

Rents are quite high in Prague for first class office space. Some foreign companies have entered into agreements with Czech building owners to renovate centrally-located structures in exchange for long-term lease rights, as the cost of renovation may be cheaper. This type of arrangement provides more suitable space than available on the open market. Legal and accounting help is available and highly advisable, as business practices are sometimes different than in North America. It is important to have insurance as landlords generally do not carry insurance for fire, flood or liability.

Foreigners are allowed to rent or lease land or other real estate on the same basis as Czech citizens and real estate may be owned if it forms part of the assets of a foreign-owned corporation. Real estate tax is payable by the owner or user, based on a mill rate affected by a multiplier. The multiplier varies regionally and is highest in Prague. A 5-percent transfer tax applies to the sale or transfer of real estate, on the sale or appraised value, whichever is higher. At present, the limited amount of serviced land around and in larger cities is a major influence on the cost of new housing development.

Advertising and Trade Promotion

Advertising is a relatively new and fast-growing business, and is mainly used by Western firms selling new-to-market products. Most Western advertising firms are active in the market, with growing competition from local firms. All media are used—television, radio, newspaper, magazine, transit, and billboard. Average prices are in line with those in the West, and therefore local products still rely mainly on price to sell. Trade

fairs and shows are an extremely popular way to gain access to local customers.

Advertising for certain types of products, such as prefabricated housing has not proven successful. The best advertising value for other types of housing-related products is with the various trade magazines and product catalogues.

Pricing Products

Czech consumers are extremely price sensitive, and consistently seek value in their purchases. Disposable income is low but slowly rising. Imports are usually too expensive for non-essential consumer products, and the market for such products is small. Nonetheless, some products sell well when priced to sell, or manufactured at a lower cost with local value-added.

For Canadian firms, the key to success is price, delivery and service terms to compete with strong German and other European competition.

Sales Service and Customer Support

Almost all Western products and services sold in the Czech Republic are supported by local sales, service and customer support, either through a subsidiary or a local representative. Many customers cite price first, but service and customer support second as a reason for buying a particular product or service.

Selling to the Government

The Czech government frequently uses tenders for major procurement. Foreign firms enjoy the same standing in bidding procedures as Czech firms.

Protecting Your Intellectual Property

The Czech Republic protects intellectual property through a number of different statutes, and is a signatory to the Paris Treaty, Madrid Trade Mark, Geneva and Berne Copyright Conventions and the Lisbon Agreement. Accordingly, intellectual property is considered well protected.

The main piece of legislation regarding intellectual property is the Law on Patents, Industrial Models, and Process Innovations, which went into effect in 1991. The Czech Republic is

also a signatory to the Paris Convention for the Protection of Industrial Property as well as several agreements with other Eastern European countries.

Patents: Government law differentiates between product and process patents. Patents are generally valid for 20 years from the date of issuance. Theories, mathematical methods, superficial product changes, and medicines and foodstuffs are generally not patentable. Applicants for patents must submit applications to the Federal Patent Office, which will then conduct a formal investigation. Patent protection generally goes into effect within 18 months after application is made. If the patent is to be used within 4 years after the application is made or 3 years after the patent is granted, patent protection lapses and the patent will revert to a domestic enterprise, which will have control over the patent until it expires.

Trademarks: The Czech Republic adheres to the accords of the Arrangement of Madrid for Trademarks. Trademarks are licensed for periods of 10 years from the date of application, and are renewable for like periods. Trademarks are registered and issued through the Federal Patent Office. Symbols and emblems that are commonplace or are used by the state cannot be registered.

Need for Local Legal Assistance

One of the first recommendations to any firm establishing an office or other operations in the Czech Republic is to find a good local lawyer. Lawyers are instrumental in reviewing contracts, setting up a legal entity, and advising on tax and other issues.

Regulatory Issues

The Czech Republic has extremely strong macro-economic indicators relative to the other countries in the region. Low external debt, control over inflation and efficient privatization have given the country a good international credit rating. Canada has a bilateral investment protection treaty with the Czech Republic which offers protection in the event of nationalization.

There are few investment incentives available to foreigners. Tax rates are relatively high even by European standards (corporate rate of 41 percent and VAT of 5-22 percent in 1995) and

consolidation is not allowed. Special taxation may be available for Canadian corporations and individuals in the Czech Republic, under the terms of a double taxation treaty. The total employer social security contribution as a percentage of gross wages is 32.25 percent for citizens, and 13.25 percent for expatriate employees.

A branch of a parent company can repatriate profits and capital with minimal controls, provided that the profits are in hard currency; one cannot repatriate profits in Koruna. On cessation of business, capital can be repatriated. There are various exchange controls aimed at improving the Czech Republic's hard currency holdings, which may complicate exchange and full repatriation of profit, and there are no government guarantees against inconvertibility.

Exporting: The Czech Republic is a member of the World Trade Organization (WTO) and the General Agreement on Tariffs and Trade (GATT), so there are no quota limits placed on the import of Canadian goods. There is no free-trade agreement with Canada. Most housing-related products can be imported without a licence. VAT is normally applicable on an equal basis to goods manufactured in the Czech Republic; in some cases part of the VAT may be recovered. The importation of products does not generally require extensive paperwork, customs clearance is at the final destination and onward transportation of goods by road and rail is adequate. Canadian exporters often ask for cash in advance until they have established a track record with new customers. The Export Development Corporation (EDC) can provide medium- and long-term financing to qualified foreign buyers of Canadian goods and services, and short-term export insurance when dealing with terms other than cash in advance. The EDC has established \$40 million worth of lines of credit with private banks in the Czech Republic, and rates the risks as acceptable to good. The lines of credit with EDC have expired although EDC is ready to reinstate them if good transactions are presented.

Customs Duties: There are at least six free-trade zones where materials, components and partially assembled products may be imported without customs duties or VAT. Manufacturing or

processing can be carried out and the goods re-exported duty and VAT free. These zones are in Cheb, Ostrava, Pardubice, Prague 10, Trince and Zlin among others. Generally, no export duties are payable except on a narrow range of wood products.

Product Certification: The Czech Republic has an association agreement with the European Union, and so, product certification is similar to Western Europe and is moving towards ISO 9000 standards. Approval times vary from a week to three months. Products certified by other European countries will usually be processed quickly.

Corporate Taxes: Tax laws stipulate a flat tax rate of 41 percent for all companies, regardless of ownership structure. The individual republics may levy an additional tax of up to 5 percent.

The general payroll tax rate is 50 percent, although some service-oriented organizations pay a reduced rate of 20 percent.

Representative offices are not responsible for payroll taxes; however, they must pay health insurance taxes at a rate of 25 percent. In private companies, deductions of up to Kc 10,000 per month, per owner, may be made, although this deduction must be included in the director's personal income tax calculation. Payroll taxes must be paid within the last three days of the current month. The employer is obligated to file an annual report for the calendar year detailing the names of employees and the amounts of their wages and salaries paid.

Personal Income Taxes: Foreigners who are present in the Czech Republic for more than 183 days within a calendar year are subject to personal income tax on worldwide income. Personal income taxes are also levied on individuals for all sources of income outside of employment. Presently, a revised federal income tax structure is being formulated. The Czech Republic retains the right to charge an additional tax of up to 5 percent.

EDC Financial Risk Assessment

The Export Development Corporation (EDC) helps Canadian companies compete in world markets through the provision of financial and risk management services. These include export credit

insurance, financing to foreign buyers of Canadian goods and services, and guarantees.

The following information was obtained from the EDC Country Risks and Opportunities book (fall, 1996).

These issues should be taken into consideration when assessing financial risk in the Czech Republic:

- Real GDP growth was expected to reach about 5 percent in 1996, thus marking the third consecutive year of economic growth. Despite this, two factors suggest a drop in growth momentum. These are a widening trade deficit and lower foreign capital inflows.
- The trade deficit in the first half of the year reached 69.7 billion Koruna (US\$2 billion), compared to 42.7 billion Koruna (US\$1.6 billion) for the same period in 1995. Moreover, growth rates for both export and import volumes have been slowing this year.
- Foreign capital inflows levelled off in 1996. Inflows in the first half of 1996 amounted to 2.7 billion Koruna (US\$98 million), compared to 223.3 billion Koruna (US\$8 billion) in all of 1995. Foreign capital inflows in the first quarter of 1996 were too low to cover the current account deficit, which reached 15 billion Koruna (US\$540 million).
- Reserves fell by 6 percent in the first quarter of 1996 from US\$13.8 to US\$13.1 billion and by 4 percent (US\$500 million) in the second quarter to US\$12.6 billion. But reserves remain comfortable at over 5 months' worth of imports. If the trade deficit worsens in 1997, and if the Koruna were to strengthen much further, the authorities may have to take action on the exchange rate.
- The Organization for Economic Cooperation and Development (OECD), of which the Czech Republic has been a member since

December 1995, had mostly praise for the country's economic reforms in its latest country report. Particularly, the organization expects a rapid rise of Czech incomes and living standards to levels prevailing among other OECD members.

- The two main criticisms contained in the report pertain to monetary policy and the external accounts. On monetary policy, the OECD feels that the Czech Republic could do more to combat inflation, especially given its added elbow-room since it widened the Koruna's trading band against the currency basket to which it is pegged. On the external accounts, the OECD thinks that the current account, while still sustainable, could become a problem if international investors had a mood change.
- The Czech Central Bank is in a difficult position. On the one hand, it could lower interest rates to discourage capital inflows and thus allow the exchange rate to fall, but this would likely stimulate inflation. It could leave interest rates at their currently high level to fight inflation, but this would mean continuing strong capital inflows. Finally, it could let the currency increase in value to its natural level, but this could result in drastically reduced capital inflows as well as further impair the competitiveness of Czech imports. As a result, any Central Bank policy will have to thread a delicate course between the pressures emanating from inflation, currency depreciation, and capital inflows. For now, the Central Bank has decided to focus more on inflation and strengthen the local banking system.

The overall collection experience in the Czech Republic is generally satisfactory. Open trading terms are becoming more common. There is some difficulty in getting credit and financial information.

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Housing Export Centre

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Czech Republic Government Offices in Canada

Embassy of the Czech Republic in
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Trade Commissioner of the Czech
Republic

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Montreal, PQ H3H 2G1

Tel.: (514) 849-4495
Fax: (514) 849-4117

Czech Republic Institutional Support for Housing Importers

Centre for Construction Engineering

Prazka 16
102 21 Praha 10, Czech Republic

Tel.: (011 42 2) 7528419
Fax: (011 42 2) 752891.

Civil Engineering Technical and
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190 00 Praha 9, Czech Republic

Deputy director: ing. Petr Kucera,
(German speaker)
Tel.: (011 42 2) 756433

Tel.: (011 42 2) 8591041
Fax: (011 42 2) 8587587

Contact name: ing. Vladimir Pitra
(no foreign languages)
Tel.: (0114 2 2) 8896394.

Testing and Certification Institute

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Tel.: (011 42 67) 87 1739
Fax: (011 42 67) 82 855

Contact: ing. Jiri Hes

The Society of Czech Architects

Letenska 5
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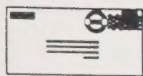
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Chairman: Jan Kozel
(English speaker)
Contact names:
ing. arch. Natalie Mojzisova,
ing. arch. Karel Dusek
(both are English and German
speakers)
Tel.: (011 42 2) 539741.

Czech Republic Institutional Support for Housing Importers (cont'd)

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The Czech Construction Society	Novotnaho livka 5 116 68 Praha 1, Czech Republic	Chairman: ing. Jiri Hlavacek (English speaker) Tel.: (011 42 2) 21082397 Fax: (011 42 2) 24227836 ing. Frantisek Slajch, Secretary
ABF/Architectural & Construction Development Foundation	Vadavska nam. 31 111 21 Praha 1, Czech Republic	Director: Jan Fibiger Tel.: (011 42 2) 24229284 Fax: (011 42 2) 24212006 ing. Vera Pankova, prefabricated house specialist Tel.: (011 42 2) 285782 or (011 42 2) 24228555 Fax: (011 42 2) 24233136 ing. Skripnikova, testing regulations and requirements specialist Tel.: (011 42 2) 284558
The Union of Construction Guilds	Na Berance 2 160 00 Praha 6, Czech Republic	Chairman: ing. Jan Fujacek Tel.: (011 42 2) 36035 Fax: (011 42 2) 3184801
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					3	
					3	
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11 to 20	6.43	12.35	18.08	42.75	38.77	118.75	71.75
21 to 40	6.94	14.90	23.81	58.75	64.65	193.75	103.75
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81 to 100	8.45	23.35	40.92	106.75	146.60	373.75	169.75
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121 to 140	9.46	29.05	52.31	134.75	184.72	493.75	209.75
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